



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



William P. White
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **First Washington Insurance Company** as of December 31, 2010

ORDER


Pursuant to Examination Warrant 2010-5, an Examination of **First Washington Insurance Company** as of December 31, 2010 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 20th day of June 2012, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.


William P. White
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

FIRST WASHINGTON INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

NAIC COMPANY CODE 14699

Table of Contents

| | Page |
|---|------|
| Salutation | 1 |
| Scope of Examination | 1 |
| Status of Prior Examination Findings | 2 |
| History | 2 |
| General | 2 |
| Capital Stock | 3 |
| Dividends to Stockholders | 3 |
| Management | 3 |
| Board of Directors | 3 |
| Officers | 4 |
| Committees | 4 |
| Conflicts of Interest | 4 |
| Corporate Records | 4 |
| Affiliated Companies | 5 |
| Intercompany Agreements | 6 |
| Fidelity Bond and Other Insurance | 7 |
| Pension, Stock Ownership and Insurance Plans | 7 |
| Statutory Deposits | 8 |
| Territory and Plan of Operation | 8 |
| Insurance Products and Related Practices | 8 |
| Reinsurance | 8 |
| Accounts and Records | 8 |
| Financial Statements | 9 |
| Balance Sheet | 10 |
| Assets | 10 |
| Liabilities, Surplus and Other Funds | 11 |
| Statement of Income | 12 |
| Capital and Surplus Account | 13 |
| Analysis of Examination Changes to Surplus | 14 |
| Comparative Financial Position of the Company | 14 |
| Comments and Recommendations | 15 |
| Subsequent Events | 16 |
| Conclusion | 17 |
| Signatures | 18 |

Washington, D.C.
May 31, 2012

Honorable William White
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

First Washington Insurance Company Inc.

(hereinafter called the Company) at its home office located at 3341 Benning Road, N.E., Washington, DC 20019, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period from January 1, 2006 to December 31, 2010, including any material transactions and/or events noted occurring subsequent to December 31, 2010, was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) by examiners of the District of Columbia Department of Insurance, Securities and Banking (the Department).

The last examination of the Company was a full scope examination, covering the period from January 1, 2001 to December 31, 2005.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the NAIC and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2006 through 2010. We placed substantial reliance on the audited financial statements for calendar years 2006 through 2009, and consequently performed only minimal testing for that period. We concentrated our examination efforts on the year ended December 31, 2010. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2010, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the seven recommendations made in our preceding Report on Examination, which covered the period from January 1, 2001 to December 31, 2005.

During our current examination, we restated two of the seven recommendations made in our prior Report on Examination. See the "Comments and Recommendations" section of this report under the caption "Independent Director and Committee" for further discussions regarding the recommendations.

HISTORY

General:

This stock company was incorporated in the District of Columbia on June 3, 1986. As stated in the Articles of Incorporation, the purposes for which the Company was organized is to write multiple lines of property and casualty insurance as authorized in section 31-2502 of the District of Columbia Code. The period of existence of the Company is perpetual. The Company wrote commercial policies on taxicab and limousines up until January 1, 2006 and March 31, 2006 respectively.

On May 13, 1999, Anacostia Holdings Company, Inc., a Maryland corporation, was created. One thousand shares of Anacostia were issued to Mr. Gerald Schaeffer at a cost of \$100. Pursuant to an assignment of rights in capital stock of First Washington Insurance Company, Inc., ownership of the Company was transferred from Gerald Schaeffer to the Holding Company.

Though inactive with respect to insurance operations, the Company remains licensed in the District of Columbia and Maryland.

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

Capital Stock:

The Company's Articles of Incorporation originally authorized the Company to issue 10,000 shares of common stock without par value. On April 10, 1991, by an amendment to the Articles of Incorporation, the Company increased its authorized Capital Stock from 10,000 shares without par value to 100,000 shares of common stock with a par value of \$10 per share. At December 31, 2010 there were 50,000 shares of common stock issued with 25,000 shares outstanding and 25,000 shares of treasury stock. This brings the paid-up capital stock to \$500,000 and gross paid in and contributed surplus to \$200,000 in compliance with D.C. Code, Section 31-2502.13.

Dividends to Stockholders:

The Company declared a dividend to stockholders of \$600,000 in 2010; \$400,000 in 2009 and \$100,000 in 2006. All dividends were approved by the Department.

Management:

The Company's Articles of Incorporation and Bylaws provide that the responsibility for the control and management of the affairs, property and interests of the Company is vested in its Board of Directors composed of not less than three (3) members who shall be elected annually by the shareholders. The Bylaws provide that the officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers, including a Chairman of the Board of Directors, and one or more Vice Presidents, as the Board of Directors may from time to time deem advisable. The Board of Directors shall elect the officers of the Company at the regular annual meeting of the Board following the annual meeting of shareholders.

According to the Bylaws, at any meeting of the Board of Directors, the presence of a majority of the Directors then in office shall be necessary and sufficient to constitute a quorum for the transaction of business. The minutes of all meetings held during the period under statutory examination indicated that a quorum was obtained at all meetings of the Board of Directors during the period under examination.

Directors duly elected and serving at December 31, 2010 follows. Addresses and business affiliations were provided by the Company.

Name and Address

Edith F. Schaeffer
Washington, DC

Gerald H. Schaeffer
Washington, D.C.

Principal Occupation

President and Chairman
First Washington Insurance Company

CEO and Treasurer
First Washington Insurance Company

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

Jeffery M. Schaeffer
Bethesda, Maryland

Secretary and Vice President
First Washington Insurance Company

The composition of the board of directors at December 31, 2010 was not in compliance with District of Columbia Official Code Section 31-706(c)(3) which requires that not less than 1/3 of the directors of the Company be persons who are not officers or employees of the Company, or of any entity controlling, controlled by, or under common control with the Company (i.e., the directors must be “independent”). For further discussion see the Comments and Recommendations section of this report under the caption “Lack of Independent Directors.”

The By-laws provide that the officers of the Company shall consist of a President, a Secretary/Treasurer, and such other officers, including one or more Vice-Presidents. The officers shall be elected by the Board of Directors and shall serve until his/her successor is duly elected and qualified or the officer is removed.

The following were duly elected Officers serving at December 31, 2010:

Edith F. Schaeffer
Gerald H. Schaeffer
Jeffery M. Schaeffer

President and Chairman
CEO and Treasurer
Secretary and Vice President

Committees:

As of December 31, 2010 the Company was not in compliance with District of Columbia Official Code Section 31-706(c)(4) which requires that the board establish one or more committees comprised of individuals who are not officers or employees of the Company, or of any entity controlling, controlled by or under common control with the Company. Specifically, the Company did not have such a committee or committees. For further discussion see the “Comments and Recommendations” section of this report under the caption “Lack of Independent Committees of Board of Directors.”

Conflicts of Interest:

Directors and officers of the Company regularly responded to conflict of interest questionnaires. Our review of the responses to the questionnaires completed for 2010 disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during the course of our examination.

Corporate Records:

We reviewed the minutes of the meetings of the stockholders and board of directors for the period under examination. Based on our review, it appeared that the minutes

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

documented the Company's significant transactions and events, and that the directors approved those transactions and events.

AFFILIATED COMPANIES

The Company is a member of the Anacostia Holding Company system. Gerald H. Schaeffer owns 100% of Anacostia, which owns 100 percent of the stock of First Washington Insurance Company and Equitable Liability Insurance Company. These are the only insurance companies within the Holding Company structure. The total Holding Company structure with all affiliated companies is as follows:

Gerald H. Schaeffer owns 100% of the following:

- Anacostia Holding Company, Inc.
- Liberty Transportation Management Corporation
- Dragonfly, Inc.
- Auto Safety, Inc.
- Auto Management, Inc.
- Anchor Leasing, Inc.
- Diversified Insurance Management, Inc.

Anacostia Holding Company, Inc. owns 100% of the following:

- First Washington Insurance Company
- Equitable Liability Insurance Company

Liberty Transportation Management Corporation owns 100% of the following:

- Allied Associates, Inc.
- Cabs, Inc.
- Taxi Transportation, Inc.
- Transco, Inc.

Dragonfly, Inc. owns 100% of the following:

- Iris, Inc.
- Lilly, Inc.
- Rooster, Inc.
- Triumph, Inc.
- Zeus, Inc.

Gerald H. Schaeffer owns 98%, Edith F Schaeffer (wife) owns 2% of the following:

- 1505 Eastern Avenue, L.L.C.
- 1625 New York Avenue, L.L.C.
- 3101 Rhode Island Avenue, L.L.C.
- 33 New York Avenue, L.L.C.
- 5 Q Street, L.L.C.

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

Gerald H. Schaeffer owns 67% of the following:

3341 Benning Road Limited Partnership
Washington Benning Road Limited Partnership

Gerald H. Schaeffer owns 60% of the following:

9 Fish, L.L.C

Gerald H. Schaeffer owns 50% of the following:

1830 Bladensburg Road, L.L.C

Gerald H. Schaeffer owns 33% of the following:

1915 New York Avenue Limited Partnership
1943 New York Avenue Limited Partnership
Minnesota Avenue & Sheriff Road Limited Partnership
Mount Olivet Joint Venture
3621 Benning Road Limited Partnership
1940 Montana Avenue Limited Partnership
1729 Bladensburg Road Limited Partnership
1400 Maryland Avenue Limited Partnership
906 Bladensburg Road Limited Partnership
1016 H Street Limited Partnership
M Street Joint Venture
1900 Bladensburg Road Limited Partnership
Bladensburg & R Limited Partnership
1801 Bladensburg Road Limited Partnership
1910 Bladensburg Road Limited Partnership
Liberty Limited Partnership

Gerald H. Schaeffer owns 20% of the following:

DAG Petroleum Suppliers, L.L.C.
DAG SPE Managing Member, Inc.
DAG Energy, L.L.C.
DAG Oil, L.L.C.
DAG Power, L.L.C.

INTERCOMPANY AGREEMENTS

As of December 31, 2010, the Company was a party to the following significant intercompany agreements:

Expense Sharing Agreement

The Expense sharing agreement became effective April 25, 2003 and is between Anacostia Holding Company, Equitable Liability Insurance Company (ELIC) and the Company. According to the agreement, ELIC and the Company agree to pay the Parent

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

for costs incurred on their behalves. Per the agreement, management services will be charged based on the time actually spent by the Parent's employees based on hourly rates agreed by both parties. Common expenses incurred that benefit both parties will be apportioned based on reasonable methods determined under the best judgment of both parties that reflects the anticipated benefits expected to be derived by each party.

Tax Sharing Agreement

Effective May 13, 2001, the Company entered into a tax sharing agreement with Anacostia Holding Company. Based on the agreement, the amount of federal income taxes allocable to the subsidiaries shall be determined using the method described in section 1.1502-32(b)(3)(iv)(D) of the Treasury regulations. Thus, parent or subsidiary shall be required to pay for any reduction in its separate company liability because of the absorption of losses, credits or other tax attributes of other members. Conversely, parent or subsidiary shall be entitled to compensation to the extent that the absorption or its losses, credits, or other tax attributes reduces the group's consolidated federal income tax liability.

Office Equipment Rental Agreement

The office equipment rental agreement was executed July 24, 2006 and became effective September 1, 2006. The agreement between the Company and Anchor Leasing Inc., an affiliate, specifies a monthly rental expenses for equipment used by the Company and owned by Anchor Leasing. The lease is automatically renewed at the end of each 12 month period.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage of \$100,000 with a deductible of \$5,000. The fidelity bond complies with the minimum coverage required by District of Columbia Municipal Regulation 26-803.1 and meets the minimum coverage recommended by the National Association of Insurance Commissioners.

The Company is not a named insured on any other policies.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have employees and therefore does not have employee pension, stock ownership and insurance plans.

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

STATUTORY DEPOSITS

District of Columbia statutes do not require the Company to maintain a statutory deposit.

TERRITORY AND PLAN OF OPERATION

The Company's management decided to cease writing taxicab liability insurance effective January 1, 2006. Management's decision to cease writing business was in conjunction with District of Columbia Municipal Regulation 26-801, which became effective January 1, 2006, and mandates a six month policy period on taxicab insurance. All taxicab liability business was transferred to its insurance affiliate Equitable Liability Insurance Company effective January 1, 2006. The Company continued to write limousine insurance until March 31, 2006. Subsequent to March 31, 2006 the Company has been in runoff mode with respect to insurance operations.

INSURANCE PRODUCTS AND RELATED PRACTICES

A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, underwriting, and rating, claims processing and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
 - Claims Processing (Timeliness)
 - Complaints

REINSURANCE

As of December 31, 2010, the Company had no ceded or assumed business.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any significant deficiencies in these records.

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

In addition, our examination disclosed that minutes of the Stockholders and Directors did not include the reporting and approval of investments made by the investment committee. This is discussed further in the “Comments and Recommendations” section of this Report, under the caption “Minutes of Stockholders and Directors.”

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of December 31, 2010, as determined by this examination:

| <u>STATEMENT</u> | <u>PAGE</u> |
|---|--------------------|
| Balance Sheet: | |
| Assets | 10 |
| Liabilities, Surplus and Other Funds | 11 |
| Statement of Income | 12 |
| Capital and Surplus Account | 13 |
| Analysis of Examination Changes to Surplus | 14 |
| Comparative Financial Position of the Company | 14 |

The accompanying “Note to Financial Statements” is an integral part of these financial statements.

First Washington Insurance Company
Report on Examination
Examination as of December 31, 2010
BALANCE SHEET

ASSETS

| | Assets | Nonadmitted Assets | Net Admitted Assets | Examination Adjustment Increase (Decrease) | Net Admitted Assets Per Examination |
|---|---------------|-------------------------------|--------------------------------|---|--|
| Mortgage loans ¹ | \$1,514,000 | \$ 620,000 | \$894,000 | \$ 0 | \$894,000 |
| Cash (\$592,740), cash equivalents (\$0) and short term investments (\$0) | 592,740 | | 592,740 | | 592,740 |
| Other invested assets ² | 2,657,117 | 2,072,000 | 585,117 | | 585,117 |
| Subtotals, cash and invested assets | \$ 4,763,897 | \$ 2,682,000 | \$ 2,071,897 | \$ 0 | \$ 2,071,897 |
| Investment income due and accrued | 7,304 | | 7,304 | | 7,304 |
| Current federal and foreign income tax recoverable | 112,267 | | 112,267 | | 112,267 |
| Net deferred tax asset | 23,177 | | 23,177 | | 23,177 |
| Totals | \$ 4,906,645 | \$ 2,682,000 | \$ 2,214,645 | \$ 0 | \$ 2,214,645 |

¹ A portion of mortgage loans nonadmitted by the Company include unsecured loans to an officer of an affiliated company.

² Other invested assets nonadmitted by the Company represent a loan made to an officer of the Company.

First Washington Insurance Company
Report on Examination
Examination as of December 31, 2010
LIABILITIES, SURPLUS AND OTHER FUNDS

| | Amounts per Annual Statement | Examination Adjustments | Amounts per Examination |
|--|------------------------------------|----------------------------|----------------------------|
| Losses ³ | \$ 0 | \$ | \$ 0 |
| Other expenses (excluding taxes, licenses and fees) | 7,765 | | 7,765 |
| Amounts withheld or retained for the account of others | 5,712 | | 5,712 |
| Payable to Parent | 344 | | 344 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities | \$ 13,821 | \$ 0 | \$ 13,821 |
| Common capital stock | \$ 500,000 | | \$ 500,000 |
| Treasury Stock | (2,000,000) | | (2,000,000) |
| Gross paid in and contributed surplus | 200,000 | | 200,000 |
| Unassigned funds (surplus) | <u>3,500,824</u> | | <u>3,500,824</u> |
| Surplus as regards policyholders | <u>2,200,824</u> | <u>0</u> | <u>2,200,824</u> |
| Total liabilities and surplus | <u><u>\$ 2,214,645</u></u> | <u><u>\$ 0</u></u> | <u><u>\$ 2,214,645</u></u> |

³ The Company has no loss or loss adjustment expense reserves as the Company has been in runoff since 2006.

First Washington Insurance Company
Report on Examination
Examination as of December 31, 2010
STATEMENT OF INCOME

Underwriting Income:

| | |
|-----------------|------|
| Premiums earned | \$ 0 |
|-----------------|------|

Underwriting deductions:

| | |
|-----------------|-----------|
| Losses incurred | \$ 11,000 |
|-----------------|-----------|

| | |
|------------------------|---------|
| Loss expenses incurred | 123,323 |
|------------------------|---------|

| | |
|--------------------------------------|---------------|
| Other underwriting expenses incurred | <u>67,060</u> |
|--------------------------------------|---------------|

| | |
|-------------------------------|-------------------|
| Total underwriting deductions | <u>\$ 204,383</u> |
|-------------------------------|-------------------|

| | |
|-----------------------|------------|
| Net underwriting loss | \$ 204,383 |
|-----------------------|------------|

Investment Income:

| | |
|------------------------------|------------|
| Net investment income earned | \$ 228,363 |
|------------------------------|------------|

| | |
|----------------------------|----------|
| Net realized capital gains | <u>0</u> |
|----------------------------|----------|

| | |
|---------------------|------------|
| Net investment gain | \$ 228,363 |
|---------------------|------------|

Other Income:

| | |
|----------------------|------------------|
| Miscellaneous income | <u>\$ 55,210</u> |
|----------------------|------------------|

| | |
|--------------------|------------------|
| Total other income | <u>\$ 55,210</u> |
|--------------------|------------------|

| | |
|--|-----------|
| Net income after dividends to policyholders and before federal and foreign income taxes | \$ 79,190 |
|--|-----------|

| | |
|---|---------------|
| Federal and foreign income taxes incurred | <u>26,925</u> |
|---|---------------|

| | |
|------------|-------------------------|
| Net income | <u><u>\$ 52,265</u></u> |
|------------|-------------------------|

First Washington Insurance Company
 Report on Examination
 Examination as of December 31, 2010
CAPITAL AND SURPLUS ACCOUNT

| | |
|--|---------------------|
| Surplus as regards policyholders, December 31, 2005 | \$ 4,229,110 |
| Net income, 2006 | \$ 1,351,338 |
| Change in net unrealized capital gains or (losses) | (1,865,919) |
| Change in net deferred income tax | 634,412 |
| Dividends to stockholder | (100,000) |
| Net change in surplus as regards policyholders, 2006 | <u>19,831</u> |
| Surplus as regards policyholders, December 31, 2006 | \$ 4,248,941 |
| Net income, 2007 | 1,178,601 |
| Change in net unrealized capital gains or (losses) | 229,049 |
| Change in net deferred income tax | (59,082) |
| Change in nonadmitted assets | (1,400,000) |
| Net change in surplus as regards policyholders, 2007 | <u>(51,432)</u> |
| Surplus as regards policyholders, December 31, 2007 | <u>\$ 4,197,509</u> |
| Net income, 2008 | \$ 272,754 |
| Change in net unrealized capital gains or (losses) | (333,711) |
| Change in net deferred income tax | 113,461 |
| Change in nonadmitted assets | (975,000) |
| Net change in surplus as regards policyholders, 2008 | <u>(922,496)</u> |
| Surplus as regards policyholders, December 31, 2008 | <u>\$ 3,275,013</u> |
| Net income, 2009 | \$ 169,181 |
| Dividends to Stockholder | (400,000) |
| Change in nonadmitted assets | (523,725) |
| Net change in surplus as regards policyholders, 2009 | <u>(754,544)</u> |
| Surplus as regards policyholders, December 31, 2009 | \$ 2,520,469 |
| Net income, 2010 | \$ 52,265 |
| Change in net unrealized capital gains or (losses) | (400,823) |
| Change in net deferred income tax | 102,185 |
| Change in nonadmitted assets | 526,725 |
| Dividends to Stockholder | (600,000) |
| Net change in surplus as regards policyholders, 2010 | <u>(319,645)</u> |
| Surplus as regards policyholders, December 31, 2010 | <u>\$ 2,200,824</u> |

First Washington Insurance Company
 Report on Examination
 Examination as of December 31, 2010
ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

| | |
|--|--------------------|
| Surplus as regards policyholders per annual statement, December 31, 2010 | \$ 2,200,824 |
| Change in unassigned funds | <u>0</u> |
| Surplus as regards policyholders per Examination, December 31, 2010 | <u>\$2,200,824</u> |

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the five-year period ended December 31, 2010, is as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Assets | \$2,214,645 | \$2,632,063 | \$3,667,182 | \$5,572,626 | \$8,195,516 |
| Liabilities | 13,821 | 111,594 | 385,724 | 1,375,117 | 3,946,575 |
| Policyholders surplus | 2,200,824 | 2,520,469 | 3,281,458 | 4,194,509 | 4,248,941 |
| Premiums earned | 0 | 0 | 0 | 0 | 0 |
| Dividends to Shareholder | 600,000 | 400,000 | 0 | 0 | 100,000 |
| Net underwriting gain (loss) | (204,383) | 34,617 | 464,388 | 1,581,002 | 239,086 |
| Net investment gain (loss) | 228,363 | 173,748 | 61,999 | 293,267 | 1,990,805 |
| Net income (loss) | 52,265 | 169,181 | 279,199 | 1,178,601 | 1,351,338 |

Note: Amounts for the years ended December 31, 2006 through 2009 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2010 are amounts per examination.

First Washington Insurance Company
Report on Examination
Examination as of December 31, 2010
COMMENTS AND RECOMMENDATIONS

Lack of Independent Directors:

The previous examination found that the Company was in violation of District of Columbia Code, Section 31-706(c)(3) which states that no less than 1/3 of the directors of a domestic insurer shall be persons who are not officers or employees of the insurer or any entity controlling, controlled by, or under common control with the insurer. It should be noted that the Company has requested, in writing, an exemption from the independence requirements of this statute.

As of the date of this Examination, the Department had not made a determination on the Company's request. However, the Company should note that it is required to comply with all other standards of the management of an insurer within a holding company system as detailed in the statutes while the request is under review by the Department.

Lack of Independent Committees of the Board:

Pursuant to District of Columbia Code Section 31-706 the board of directors of a domestic insurer shall establish 1 or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with the insurer, and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have responsibility for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer, and recommending to the board of directors the selection and compensation of the principal officers. As noted above, the Company has requested, in writing, an exemption from the independence requirements of this statute.

As noted in the Comment above, the Company has requested, in writing, an exemption from the independence requirements of this statute and that request is under review by the Department. The Company must still perform the duties contemplated by this statute with its current Board while the request is under review by the Department.

Re-filing permission not requested

The Company is not in compliance with Statement of Statutory Accounting Principles (SSAP) No. 3, paragraph 10 regarding the re-filing of annual statements. According to SSAP guidance, if a reporting entity becomes aware of a material error in a previously filed financial statement after it has been submitted to the appropriate regulatory agency; the entity shall file or be directed to file an amended financial statement if approved by its domiciliary regulator. The Company did not get approval when it amended and re-filed the 2008 Annual Statement.

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

The Company is required to follow the guidance provided by SSAP No. 3.

Investment Plan

The Company does not have a written investment plan. This violates District of Columbia Official Code 31-1371.04 which states that an insurer's board of directors **shall** adopt a **written** plan for acquiring investments.

The Company is required to comply with District of Columbia Code Sections 31-1371.04(a).

Additional Comments and Recommendations

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Company with regard to record keeping and other procedures relating to its operations. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and are not included in our Report on Examination.

SUBSEQUENT EVENTS

There were no significant Subsequent Events.

First Washington Insurance Company

Report on Examination

Examination as of December 31, 2010

CONCLUSION

Our examination disclosed that as of December 31, 2010, the Company had:

| | |
|--|---------------------|
| Admitted assets | <u>\$ 2,214,645</u> |
| Liabilities | <u>\$ 13,821</u> |
| Common capital stock | \$ 500,000 |
| Gross paid in and contributed surplus | 200,000 |
| Unassigned funds (surplus) | 3,500,824 |
| Treasury Stock | (2,000,000) |
| Surplus as regards policyholders | <u>\$ 2,200,824</u> |
| Total liabilities, capital and surplus | <u>\$ 2,214,645</u> |

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2010, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

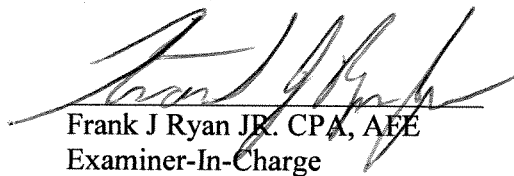
Chapters 20 ("RISK-BASED CAPITAL") and 25 ("FIRE, CASUALTY AND MARINE INSURANCE") of Title 31 ("Insurance and Securities") of the District of Columbia Official Code specify the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

First Washington Insurance Company
Report on Examination
Examination as of December 31, 2010
SIGNATURES


In addition to the undersigned, Chidinma Ukairo of the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

There were no actuarial portions to this examination.

Respectfully submitted,



Frank J Ryan JR. CPA, AFE
Examiner-In-Charge



Nathaniel Kevin Brown. CPA, CFE
Chief Examiner

District of Columbia Department of
Insurance, Securities and Banking